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MasterCard
International



January 9, 1997

To: The U.S. Region Board of Directors of
MasterCard International Incorporated

From: Noah J. Hanft 
Senior Vice President, Secretary to the U.S. Region Board

Attached are the minutes of the November 13, 1996 U.S. Region Board of Directors meeting.

We look forward to seeing you at our next Board meeting on Saturday, March 22, 1997 in Lausanne, Switzerland.

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Minutes of the Meeting of the
U.S. Region Board of Directors of
MasterCard International Incorporated
Kauai, Hawaii
November 13, 1996

A meeting of the U.S. Region Board of Directors (hereinafter referred to as the "Board") of MasterCard International Incorporated (hereinafter referred to as "MasterCard") was held, commencing at 8:00 A.M., local time, on Wednesday, November 13, 1996, at the Hyatt Regency Kauai Resort & Spa in Kauai, Hawaii. The following directors were present: Ms. Brady-Smith, Messrs. Field, Garcia, Greenawalt, Hartnack, Heuer, Johnson, Lockhart, McDonald, and Mehta, Ms. Rahe, and Messrs. Saunders, Schmitz, Wall, Walsh, Willumstad, Wright and Zebeck, thereby constituting a quorum. The following staff members participated in all or a portion of the meeting: Messrs. Abrams, Brennan, Cotroneo, Flood, and Gore, Ms. Hackett, Messrs. Hanft, Hogan, Jones, McElhatton, Mundt, and Norton, Ms. Rigione, Ms. Scarry, Messrs. Thom and Timko, Ms. Tsairis, and Messrs. Utton, Wesley, and Williams.

REDACTED

Mr. Field, Chairman of the Board, chaired the meeting, and Mr. Hanft, Secretary of the Board, kept the Minutes thereof.

Opening Remarks by Chairman and Approval of Minutes

Mr. Field called the meeting to order. He then requested that the minutes of the June 28, 1996 Board meeting be approved. See Agenda Item 1. Upon motion duly made and seconded, the following resolution was unanimously approved.

RESOLUTION OF THE U.S. BOARD OF DIRECTORS:

RESOLVED, that, the minutes of the June 28, 1996 U.S. Board of Directors meeting be, and hereby are, approved.

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1996 U.S. Region President's Report

Mr. Field asked Mr. Heuer to report on U.S. region year-to-date performance versus 1996 objectives. See Agenda Item 2. Mr. Heuer invited questions or discussions about the Agenda item, and said that his oral report would touch only on performance highlights.

Mr. Heuer reported that forecasted full-year U.S. region financial performance is close to budget, except that member incentives are forecasted to exceed budget by about \$12 million. He explained that the variance is attributable to major co-branding wins for MasterCard this year, including Wal-Mart, Shell Gold, Ticketmaster, and Sears. Mr. Heuer reported that, through second quarter 1996, gross dollar volume for all MasterCard branded products in the region has grown 15.0% over the prior year, with transactions up 12.0%, accounts up 20.6%, and cards up 16.4%. He also reported individually on MasterMoney and commercial products performance. With respect to share trends, Mr. Heuer noted that MasterCard has held its general purpose card dollar volume share over the past three years, but has experienced some share loss when compared only to Visa.

Mr. Heuer reported that U.S. region priorities focus on share gain, growth of the deposit access business, and continued support of commercial product marketing opportunities. He reported that MasterCard's overall mail share in the U.S. during second quarter was 36%, and may reach 40% during third quarter. He reported on the introduction of a corporate fleet card designed to help manage corporate fleet expenses, and stated that over 300 affinity and co-branding deals had been signed through second quarter. Mr. Heuer reported that deposit access momentum has been sustained, and that important new participants include Key Corp., Wells Fargo, Chase and BankBoston.

Action Items

Mr. Field requested that the Board approve the resolutions set forth in Agenda Items 3.A (Election of Nominating Committee and Resignation of Directors), 3.B (Proposed Membership and Licensing Actions), 3.C (Cirrus Private Label Programs), 3.D (Co-Branding Incentives Policy), and 3.E (1997 U.S. Region Business & Financial Plan). Upon motion duly made and seconded, the resolutions set forth in Agenda Items 3.A, 3.B, 3.C, 3.D, and 3.E were unanimously approved and adopted.

U.S. Region Interchange Fee Update

Mr. Heuer reviewed action taken by the Board with respect to interchange fees at its June meeting. He stated that the Board had approved the 1997 U.S. region intraregional

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interchange fee program, which program addresses both consumer and corporate transactions. He reported that such interchange fee rates had been established without the benefit of knowing what competitive rates would be, and that the Board had granted authority to the president of the U.S. region to increase certain interchange fee rates to respond to competition. Mr. Heuer then asked Ms. Tsairis to update the Board on the 1997 interchange fee program.

Ms. Tsairis reported that the U.S. region president had not exercised his authority to effect increases in consumer card interchange fee rates. She further reported that it appeared that Visa might enact additional mid-year interchange fee rate changes, so that it may be necessary for the Board to revisit interchange fees off-cycle during the next year. Ms. Tsairis also reported that Visa had just announced its commercial card interchange fee rates, and that staff had not yet had an opportunity to analyze those rates and determine whether it believes the corporate rates approved by the Board are still appropriate. She reminded the Board that information or data requirements vary by corporate card type, and she proposed that the Board authorize the president of the U.S. region to respond, within certain capped limits, to the recently announced Visa corporate card interchange fee rates.

After discussion, upon motion duly made and seconded, the following resolution was unanimously approved and adopted.

RESOLUTION OF THE U.S. BOARD OF DIRECTORS:

RESOLVED, that, effective immediately, the president of the U.S. region be, and hereby is, authorized through March 1997 to increase Data Rate I, Data Rate II, and Data Rate III, up to the following maximums:

	<u>Current</u>	<u>Maximum</u>
Data Rate I	1.75%	2.00% + \$0.10
Data Rate II	1.65%	1.90% + \$0.10
Data Rate III	1.55%	1.80% + \$0.10

Mr. Heuer stated that he would provide a follow-up report on this matter when the Board next meets.

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Executive Session

The Board met in executive session. See Agenda Item 4.A.

REDACTED

Mr. Field stated that the executive session was over, and Mr. Greenawalt and MasterCard staff returned to the meeting room.

Integrated Advertising, Sponsorship and Promotions Framework

Mr. Utton provided an overview of MasterCard efforts with respect to advertising, sponsorship and promotions. See Agenda Item 4.B. He reported that MasterCard is

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refining its brand positioning, leveraging the tag line "The Future of Money." He reported how advertising, promotions and sponsorship activities are being integrated to ensure that MasterCard captures the attention of consumers and answers their needs as their behavior patterns evolve. He discussed the roll-out of an electronic MasterValues program, fourth quarter MasterValues advertising, and a national campaign featuring gold card purchase protection. Mr. Utton also showed clips from new television advertisements and discussed the developing 1997 local and national media campaign.

Premium Card Products Update

Mr. Flood provided an overview of the MasterCard Premium Products initiative currently underway. See Agenda Item 4.C. He discussed why the initiative was launched, reporting that affluent consumers are looking for added value not currently perceived in gold card products. He reported that objectives include creating incremental volume, accounts, sales, and outstandings, supporting the MasterCard brand by increased consumer preference, enhancing the MasterCard brand image by attracting profitable, affluent consumers, and introducing products that can be offered globally.

Mr. Flood reported on plans to create a premium family of products to maximize member opportunity and attract new customers. He explained that the Premium Products category would be comprised of the "World MasterCard" and "Platinum Class," and the construct of each, with World MasterCard cards positioned as high transaction, no pre-set charge limit cards with "best in class" service and rewards and revolving capability, and the Platinum Class cards having a minimum credit line of \$7,500, and 24 hours a day, 7 days a week customer service. Mr. Flood reported on next steps, including finalizing product specifications and requirements, developing launch plans, and the building optional feature support.

Bankruptcy Initiatives

Mr. Jones reviewed MasterCard activities underway to address issues surrounding consumer bankruptcy in the U.S. See Agenda Item 4.D. Mr. Jones reported that MasterCard's mission is to help reduce bankruptcy-related credit card chargeoff losses through reform of bankruptcy laws and by changing debtors' dispositions towards bankruptcy. He said it is also MasterCard's intent to counter criticism that credit cards are the cause of the bankruptcy problem in the U.S.

Mr. Jones reported on MasterCard's strategy to achieve the objectives. He reported MasterCard has developed a multi-pronged approach incorporating research and thought

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leadership, public affairs and government relations, consumer education, and member outreach. He then provided details concerning each of the four program components.

Mr. Jones reported that MasterCard will meet with Visa to finalize communications programs, and finalize plans for the program as a whole. He also reported that MasterCard will shortly finalize strategy for a scheduled appearance before the National Consumer Bankruptcy Coalition.

Mondex USA Update

Mr. Hogan provided an overview of MasterCard's impending relationship with Mondex International and Mondex USA. He described the Mondex multiple application operating system (MAOS) as a secure, unbranded chip technology platform. He also reported on the scheme's stored value product, and described how that product technology can be leveraged for non-cash applications. He reported that the conclusions of independent technical assessments are that Mondex is an excellent operating system and technology platform for IC Card applications.

Mr. Hogan reported on the incorporation and structure of Mondex International (MXI), and reported that, at its meeting the following day, the Global Board would consider investing in MXI. He described the due diligence analysis which has led MasterCard management to determine that the investment option is more attractive than the alternative option of building a chip multiple application operating system. He presented a financial analysis of the "buy versus build" alternatives, information about the proposed investment, described how MXI would be governed, and how the stored value product could be branded.

Mr. Hogan reported on ownership of Mondex USA, and described terms under which MasterCard would acquire a 10% interest in Mondex USA. Mr. Heuer reported that MasterCard was in discussion with the Mondex U.S. franchisees. He reported that the Board will likely be asked to participate in a telephone meeting to address the investment in about a month.

Year 2000 Update

Mr. McElhatton presented the MasterCard strategy to ensure compliance with year 2000 and beyond card expiration dates. See Agenda Item 4.F. Mr. McElhatton described the nature and dimensions of the compliance problem, and its serious impact on acceptance

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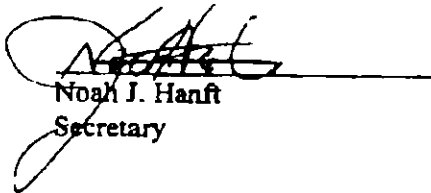
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and brand image. He reported on action taken to date and on estimates of current compliance status on a region-by-region basis.

Mr. McElhatton reported on the Year 2000 Compliance Program that would be presented to the Global Board the following day. He described the self-certification process, assistance MasterCard is providing to members, proposed compliance monitoring activities, and dates by which various actions leading to full compliance must be achieved. He then described the penalties that will be imposed on members that fail to timely complete the self-certification process or to achieve year 2000 compliance.

Closing Remarks and Adjournment

Mr. Heuer reported that Mr. Walsh would soon retire from Chase and would, therefore, leave the Board. On behalf of the Board and MasterCard staff, Mr. Heuer thanked Mr. Walsh for his years of service to MasterCard. There being no further business to come before the meeting, upon motion duly made and seconded, the meeting was adjourned.


Noah J. Hanft
Secretary

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